2 Reasons Why Warren Buffett Is Sitting on the Sidelines

Description

Warren Buffett said, “When it rains gold, put out the bucket, not the thimble.” And since he hasn’t put out his U.S. $138 billion “bucket” yet, we can assume that it isn’t raining gold — not yet. Many people expected Buffett to buy businesses when they are trading so far below their prime rates — or at least to lend to failing businesses. But he has maintained that he hasn’t seen anything attractive yet.

Berkshire Hathaway’s shareholders’ meeting and quarterly filing blew away any uncertainties and assumptions that the Wizard of Omaha was making moves behind the scenes. Now people are wondering *why* he hasn’t made any moves yet.

An uncertain market

One of the most significant hindrances in the swift market recovery is uncertainty. While countries around the globe have started to open up again, people haven’t really recovered from the fear of the pandemic.

Medical experts aren’t too hopeful about a viable vaccine coming anytime soon, and already, there are talks of a second wave.

With so much confusion, it’s understandable that Buffett would want to stay his hand. While he appears hopeful about the long-term recovery, the short-term future of the market is riddled with uncertainty. And if he can’t make an educated investment, he might not make one at all.

Too soon to buy

Another, relatively more morbid reason might be that Buffett feels the prices are still too high. For him, they might normalize again through a series of corrections or full-blown recession driven by the pandemic.

If a second wave hits, a recession will be all but certain — and that might the perfect time to make a move. With the Berkshire Hathaway's cash pile, Buffett can make several (full/partial) major acquisitions.

Canadian investors thinking along the same lines might want to keep some good companies on their radar. So when another market crash comes, they can take advantage of an even fatter discount tag — maybe a stock like **Park Lawn** (TSX:PLC). It's one of the largest publicly traded funeral and cremation companies in North America.

The company still hasn't recovered from the market crash, and it's trading at a price 25% down from the pre-crash value. If a second wave comes, the price may go down even further, but it's highly unlikely the company will go out of business.

It has debt, but even if we discount the goodwill, the assets are enough to cover its liabilities. Plus, it's operating a nearly recession-proof business in a relatively competitor-less and static market.

Even if people stop paying for costly funerals in tough economic times, funerals and cremation will still happen. The company can attract business by changing its pricing structures and its services to more affordable ones. It's a decent growth stock and a consistent dividend-paying company, but the payout ratio doesn't seem very sustainable at the moment.

Foolish takeaway

Warren Buffett has established himself as one of the most successful investors in the world. If he is unwilling to make a move in this uncertain market, this might be something other investors can learn from.

If you can't afford to emulate him and wait for a better time to buy, you may have to risk buying in this uncertain period. But you can mitigate this risk by choosing businesses that are bound to recover.

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1. TSX:PLC (Park Lawn Corporation)

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